

**BOARD CHARACTERISTICS AND FIRM PERFORMANCE: EVIDENCE
FROM BURSA MALAYSIA ACE MARKET**

By

NABIHAH AMINADDIN

Dissertation Submitted to

Othman Yeop Abdullah Graduate School of Business,

Centre for Graduate Studies, Universiti Utara Malaysia,

in Partial Fulfillment of the Requirement for the Master of Science



Othman Yeop Abdullah
Graduate School of Business

Universiti Utara Malaysia

PERAKUAN KERJA KERTAS PROJEK
(Certification of Project Paper)

Saya, mengaku bertandatangan, memperakukan bahawa
(I, the undersigned, certified that)

NABIHAH BINTI AMINADDIN (808868)

Calon untuk Ijazah Sarjana
(Candidate for the degree of) **MASTER OF SCIENCE (FINANCE)**

telah mengemukakan kertas projek yang bertajuk
(has presented his/her project paper of the following title)

**BOARD CHARACTERISTICS AND FIRM PERFORMANCE: EVIDENCE
FROM BURSA MALAYSIA ACE MARKET**

Seperti yang tercatat di muka surat tajuk dan kulit kertas project
(as it appears on the title page and front cover of the project paper)

Bahawa kertas projek tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan memuaskan.
(that the project paper acceptable in the form and content and that a satisfactory knowledge of the field is covered by the project paper).

Nama Penyelia : **ASSOC. PROF. NORAFIFAH BINTI AHMAD**
(Name of Supervisor)

Tandatangan : _____
(Signature)

Tarikh : **16 JANUARY 2013**
(Date)

PERMISSION TO USE

In presenting this project paper in partial fulfillment of the requirement for a postgraduate degree from Universiti Utara Malaysia, I agree that the University Library make a freely available for inspection. I further agree that permission for copying of this project paper in any manner, in whole or in part, for scholarly purpose may be granted by my supervisor or, in their absence by the Dean of Othman Yeop Abdullah Graduate School of Business. It is understood that any copying or publication or use of this project paper or parts thereof for financial gain shall not be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from my project paper.

Request for permission to copy or make other use of material in this project paper, in whole or in part should be addressed to:

Dean of Othman Yeop Abdullah Graduate of Business

University Utara Malaysia

06010 UUM Sintok

Kedah Darul Aman

ABSTRACT

Corporate board is one of the most important corporate governance mechanisms that monitor and advise management in carrying responsibilities to protect shareholder interests. However, the relationship between board of directors and firm performance was still much debated. This study was carried out in order to seek the relationship between board characteristics and firm performance in companies listed on ACE Market at Bursa Malaysia. The data for a year; 2011 for 89 companies was collected from the annual report and the Data Stream. The dependent variables were Tobin's q and return on assets (ROA) while the independent variables were board size, CEO ownership, independent directors, firm size, and firm age. The result of multiple regression model and correlation showed that board size has a negative relationship with Tobin's Q but a positive relationship with the ROA. CEO ownership shows a negative relationship with Tobin's Q and positive relationship with ROA. Director independence has negative relationships with both Tobin's Q and ROA. Results for the firm size show a negative relationship with Tobin's Q and a positive one with ROA while firm age indicate positive relationships for both Tobin's Q and ROA. Of the independent variables, only firm size has a significant relationship with both Tobin's Q and ROA while CEO ownership shows a significant relationship with ROA.

Keywords: Corporate Governance, Board Characteristics, ACE Market

ABSTRAK

Lembaga korporat merupakan salah satu mekanisme urustadbir korporat yang penting dalam memantau dan memberi nasihat kepada pihak pengurusan untuk menjalankan tanggungjawab untuk melindungi kepentingan pemegang saham. Walau bagaimanapun, hubungan antara lembaga pengarah dan prestasi firma masih dibahaskan. Kajian ini dijalankan untuk mengkaji hubungan antara ciri-ciri lembaga pengarah dan prestasi firma untuk syarikat-syarikat yang disenaraikan di ACE Market di dalam Bursa Malaysia. Data untuk tahun 2011 bagi 89 syarikat yang tersenarai di 'ACE Market' telah dikumpulkan dari laporan tahunan setiap syarikat dan 'Data Stream'. Pembolehubah bersandar yang digunakan dalam kajian ini adalah 'Tobin's q' dan pulangan atas asset (ROA) sebagai prestasi syarikat. Manakala, pembolehubah tidak bersandar adalah saiz lembaga pengarah, pemilikan saham oleh Ketua Pegawai Eksekutif, saiz syarikat dan umur syarikat. Hasil daripada kajian dan analisis yang telah dijalankan, saiz lembaga pengarah menunjukkan hubungan yang negatif terhadap 'Tobin's q' manakala hubungan terhadap pulangan atas asset (ROA) adalah positif. Pemilikan ketua pegarah eksekutif (CEO) pula hanya menunjukkan hubungan yang positif terhadap pulangan atas asset (ROA) manakala hubungan dengan 'Tobin's q' adalah negatif. Kajian juga menunjukkan bahawa terdapat hubungan negatif di antara pengarah bebas di dalam lembaga pengarah terhadap pulangan atas asset (ROA) dan 'Tobin's q'. Saiz syarikat berkait secara negatif dengan 'Tobin's q' tetapi berkait secara positif dengan pulangan atas asset (ROA). Untuk hubungan antara umur syarikat terhadap prestasi syarikat pula, kajian menunjukkan hubungan yang positif untuk 'Tobin's q' dan pulangan atas asset (ROA). Di antara kesemua pembolehubah tidak bersandar, hanya saiz firma yang mempunyai hubungan yang signifikan dengan kedua-dua Tobin's Q dan ROA manakala CEO menunjukkan hubungan yang signifikan dengan ROA.

Katakunci: Urus Tadbir Korporat, Ciri-ciri Lembaga Pengarah, ACE Market

ACKNOWLEDGEMENT

In the name of Allah, the Most Gracious and the Most Merciful

Alhamdulillah, all praises to Allah for the strength and His blessing in completing this project paper. Special appreciation to my supervisor, Assoc. Prof. Norafifah Ahmad for her supervision and support. I am very indebted to her patience and invaluable advices that inspired me to think positively to finish my project paper. Without her suggestions and comments throughout this work, this project paper could not be completed on time.

I also want to thank to Nurfarah Nadia for all her support and advices, Nurul Farhana for all the valuable information and changing ideas and also to all my friends who always encouraged me in finishing my project paper.

Very special thanks to my family for their continuous support and encouragement especially to my father, Aminaddin Zakaria and my mother, Siti Mariam Che Ya for their understanding and trust for me to finish this project paper.

Without all of you, this project paper would not be the same as presented here.

Thank you.

TABLE OF CONTENTS

TITLE PAGE.....	i
CERTIFICATION OF THESIS WORK.....	ii
PERMISSION TO USE.....	iii
ABSTRAK.....	iv
ABSTRACT.....	v
ACKNOWLEDGEMENT.....	vi
TABLE OF CONTENTS.....	vii
LIST OF TABLES.....	xi
LIST OF FIGURES.....	xiii
LIST OF ABBREVIATION.....	xiv

CHAPTER 1: INTRODUCTION

1.1	CORPORATE GORVERNANCE.....	1
1.2	BACKGROUND OF THE STUDY.....	3
1.3	PROBLEM STATEMENT.....	4
1.4	RESEARCH QUESTIONS.....	5
1.5	RESEARCH OBJECTIVES.....	5
1.6	SIGNIFICANCE OF THE STUDY.....	6
1.7	SCOPE AND LIMITATION OF STUDY.....	7
1.8	ORGANIZATION OF THE THESIS.....	8

CHAPTER 2: LITERATURE REVIEW

2.1	INTRODUCTION.....	9
2.2	DEPENDENT VARIABLES.....	9
2.2.1	TOBIN’S Q.....	9
2.2.2	RETURN ON ASSETS (ROA).....	11
2.3	INDEPENDENT VARIABLES.....	13
2.3.1	BOARD SIZE.....	13
2.3.2	CEO OWNERSHIP.....	15
2.3.3	BOARD INDEPENDENCE.....	16
2.3.4	FIRM SIZE.....	18
2.3.5	FIRM AGE.....	20
2.4	CHAPTER SUMMARY.....	22

CHAPTER 3: METHODOLOGY

3.1	INTRODUCTION.....	23
3.2	THEORITICAL FRAMEWORK.....	24
3.3	RESEARCH DESIGN.....	25
3.4	DATA COLLECTION.....	25
3.5	SAMPLING FRAME.....	26
3.6	VARIABLES AND MEASUREMENT.....	27
3.6.1	DEPENDENT VARIABLES.....	28
3.6.2	INDEPENDENT VARIABLES.....	28
3.7	TABLE OF KEY CONCEPT.....	29
3.8	DATA ANALYSIS AND TREATMENT.....	31

3.8.1	DESCRIPTIVE ANALYSIS.....	31
3.8.2	ORDINARY LEAST SQUARE REGRESSION MODEL...	31
3.8.3	CORRELATION COEFFICIENT ANALYSIS.....	32
3.9	CHAPTER SUMMARY.....	33

CHAPTER 4: RESULTS AND DISCUSSION

4.1	INTRODUCTION.....	34
4.2	DESCRIPTIVE STATISTICS FOR DEPENDENT VARIABLE....	35
4.3	DESCRIPTIVE STATISTICS FOR INDEPENDENT VARIABLES.....	36
4.4	MULTIPLE REGRESSION MODEL: Q AS DEPENDENT VARIABLE.....	38
4.5	MULTIPLE REGRESSION MODEL: ROA AS DEPENDENT VARIABLE.....	43
4.6	MULTICOLLINEARITY.....	46
4.7	DURBIN WATSON.....	48
4.8	PEARSON CORRELATIONS COEFFICIENT.....	48
4.9	ACCEPTANCE/REJECTION OF HYPOTHESES.....	55
4.10	CHAPTER SUMMARY.....	57

CHAPTER 5: FINDINGS AND CONCLUSION

5.1	INTRODUCTION.....	58
5.2	SUMMARY OF GENERAL FINDINGS.....	58
5.3	RECOMMENDATION.....	60

5.4	CONCLUSION.....	61
	REFERENCES.....	62
APPENDIX A: DESCRIPTIVE STATISTICS		
APPENDIX B: REGRESSION OF TOBIN’S Q AS DEPENDNET VARIABLE		
APPENDIX C: REGRESSION OF ROA AS DEPENDNET VARIABLE		
APPENDIX D: DESCRIPTIVE STATISTICS ADJUSTMENT OF THE OUTLIERS		
APPENDIX E: REGRESSION OF Q AFTER ADJUSTMENT OF THE OUTLIERS		
APPENDIX F: PEARSON CORRELATION (Q)		
APPENDIX G: PEARSON CORRELATION (ROA)		
APPENDIX H: MULTICOLLINEARITY		
APPENDIX I: LIST OF COMPANIES		

LIST OF TABLES

3.1	Table of Variables.....	28
3.2	Table of Independent Variables.....	28
3.3	Dependent Variables.....	29
3.4	Independent Variables.....	30
4.1	Table of Descriptive Statistics for Firm Performance.....	35
4.2	Table of Descriptive Statistics for Independent Variables.....	37
4.3	Table of Model Summary of Multiple Regression: Q as Dependent Variable.....	39
4.4	Table of ANOVA: Q as Dependent Variable.....	40
4.5	Table of Coefficients: Q as Dependent Variable.....	40
4.6	Table of Extreme Value of Outliers.....	41
4.7	Table of New Model Summary Multiple Regression: Q as Dependent Variable.....	42
4.8	Table of New ANOVA: Q as Dependent Variable.....	42
4.9	Table of New Coefficients: Q as Dependent Variable.....	43
4.10	Table of Model Summary for Multiple Regression: ROA as Dependent Variable.....	44
4.11	Table of ANOVA: ROA as Dependent Variable.....	44
4.12	Table of Coefficients: ROA as Dependent Variable.....	45
4.13	Table of Collinearity Statistics.....	46
4.14	Table of Durbin Watson.....	48
4.15	Table of Correlations for Tobin's Q (Q) as the Dependent Variable.....	49

4.16	Table of Correlations for Return on Asset (ROA) as the Dependent	
	Variable.....	53

LIST OF FIGURE

3.1	Theoretical Framework.....	24
-----	----------------------------	----

LIST OF ABBREVIATIONS

SC	Securities Commission
ACE	Access, Certainty and Efficiency
CEO	Chief Executive Officer
ROA	Return on Assets
ROE	Return on Equity
ASX	Australia Stock Exchange
MESDAQ	Malaysia Exchange of Securities Dealing and Automated Quotation
R&D	Research and Development
IPO	Initial Public Offering
OLS	Ordinary Least Square

CHAPTER 1

INTRODUCTION

1.1 CORPORATE GOVERNANCE

In corporate governance today, the reforms of board of director are being more stressed on. East Asian financial crisis of 1997, the world famous corporate scandals in Enron, WorldCom, Tyco International in U.S.A, HIH Insurance in Australia, Pramalat in Italy and Air New Zealand showed the importance of corporate governance. All the scandals were resulted from the lack and ineffectiveness of the monitoring mechanisms and governance practices. It also included with the failure of the Board of Directors (BOD) (Ranasinghe, 2010).

After the financial crisis on 1997, most Asian countries also prepared their corporate governance transparency and disclosure levels better (Shamsul Nahar, 2006), and so did Malaysia. According to Malaysian Code on Corporate Governance 2012, the 1997/98 Asian Financial Crisis had affected investor confidence on Malaysia. Since then policy makers had raised the standards of corporate governance. This was brought forward by the issuance of the Malaysia Code on Corporate Governance (Code) in 2000.

Corporate governance determination:

The process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interests of other stakeholders. (Malaysian Code of Corporate Governance 2012)

The contents of
the thesis is for
internal user
only

REFERENCES

- Australia Securities Exchange (ASX). (2010). Corporate Governance Principles and Recommendation with 2010 Amendments, Second Edition.
- Bennedsen, M., Kongsted, H. C., & Nielsen, K. M. (2008). The Causal Effect of Board Size in the Performance of Small and Medium-sized Firms. *Journal of Banking and Finance*. Vol. 32, pp. 1098-1109.
- Bhagat, S., & Black, B. (2000). Board Independence and Long-term Performance. Retrieved from <http://leeds-faculty.colorado.edu/bhagat/bb-022300.pdf>.
- Bhagat, S., & Black, B. (1999). The Uncertain Relationship between Board Composition and Firm Performance. *Journal of Business Lawyer*, 54: 921-963.
- Block, S. (1999). The Role of Nonaffiliated Outside Directors in Monitoring the Firm and the Effect on Shareholder Wealth. *Journal of Financial and Strategic Decisions*, Vol. 12, No. 1.
- Chandra S. Mishra & Nielsen, J. F. (1999). The Association between Bank Performance, Board Independence and CEO Pay-performance Sensitivity *Journal of Managerial Finance*, Vol. 25, Iss: 10, pp. 22-23.
- Cho, D. S., & Kim, J. (2007). Outside Directors, Ownership Structure and Firm Profitability in Korea. *Journal of Corporate Governance*, Vol. 15, No. 2.
- Claessens, S., Djankov, S., & Lang, H. P. (1999). The Separation of Ownership and Control in East Asian Corporations. Retrieved from http://www1.worldbank.org/finance/assets/images/The_separation.pdf.
- Clarke, D. C. (2006). The Independent Director in Chinese Corporate Governance. *Journal of Corporate Law*, Vol. 31, pp. 127-224.
- Haiyan, J., Ahsan, H., & Smallman, C. (2012). The Effect of Ownership Concentration on CEO Compensation-Firm Performance Relationship in New Zealand. *Pacific Accounting Review*, Vol. 21, Iss: 2, pp. 104-131.
- Hamezah Nd Nor, Norman Moh Salleh, Romlah Jaafar & Zaleha Abdul Shukor (2010). Corporate Governance and R&D Reporting in Malaysian MESDAQ Market. *International Journal of Economics and Management*. Vol. 4(2), pp 350-372.
- Han, E. K. & Yao, L. (2011). CEO Ownership, External Governance and Risk Taking. Retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1635943

- Hillier, D., & McColgan, P. (2005). Firm Performance and CEO Succession in Family-Managed Firms. Retrieved from http://www.familyfirms.ch/Papers/Paper_3_2.pdf.
- Jackling, B., & Johl, S. (2009). Board Structure and Firm Performance: Evidence from India's Top Companies. *Journal of Corporate Governance: An International Review*, 17(4): 492-509.
- Kajola, S. O. (2008). Corporate Governance and Firm Performance: The Case of Nigerian Kisted Firms. *European Journal of Economics, Finance and Administrative Sciences*, Iss: 14.
- Mohd 'Atef Md Yusof (2010). Does Audit Committee Constraint Discretionary Accruals in MESDAQ Listed Companies?. *International Journal of Social Science*. Vol. 1, No. 3.
- Neng, L., & Li, J. (1999). Board Structure and Firm Performance: New Evidence from China's Private Firms. Retrieved from <http://old.ccer.edu.cn/workingpaper/paper/e1999008.pdf>.
- Norman Mohd Saleh, Mara Ridhuan Che Abdul Rahman & Mohamat Sabri Hassan (2009). Ownership Structure and Intellectual Capital Performance in Malaysia. *Asian Academy of Management Journal of Accounting and Finance*. Vol. 5, No. 1, pp 1-29.
- Nurwati A. Ahmad Zaluki & Lim, B. K. (2012). The Investment Performance of Mesdaq Market Initial Public Offering (IPOs). *Asian Academic of Management Journal of Accounting and Finance*. Vol. 8, No. 1, pp 1-23.
- Othman Yong (2011). Investor Demand, Size Effect and the Immediate Post-Listing Behavior of Malaysian IPOs. *Universiti Tun Abdul Razak E-Journal*. Vol. 7, No. 2.
- Peng, M. W. (2004). Outside Directors and Firm Performance During Institutional Transitions. *Journal of Strategic Management*, 25: 453-471.
- Rachdi, H., & Ameer, I. G. B. (2011). Board Characteristics, Performance and Risk Taking Behaviour in Tunisian Banks. *International Journal of Business and Management*, Vol. 6, No. 6.
- Ranasinghe, D. N. (2010). Composition and Configuration of the Board and Firm Performance in Financial Services Industry in Sri Lanka. *DSM Business Review*, Vol. 2, No. 2.
- Rashid Ameer, Fairuz Ramli, & Husein Zakaria (2010). A New Perspective on Board Composition and Firm Performance in an Emerging Market. *Journal of Corporate Governance*, Vol. 10 Iss: 5 pp. 647-661.

- Renee, B. A., Heitor, A. & Daniel, F. (2005). Powerful Ceos and Their Impacts on Corporate Performance. *The Review of Financial Studies*, Vol. 18, No 4.
- Securities Commission Malaysia (2012). Malaysian Code on Corporate Governance 2012.
- Seow, R. K. T., & Pheng, L. C. (2001). CEO Share Ownership and Firm Value. *Asia Pacific Journal of Management*, Vol. 18, pp. 355-371.
- Shamsul Nahar Abdullah (2006). Board Structure and Ownership in Malaysia: the case Of distressed listed companies. *Journal of Corporate Governance*, Vol. 6, Iss: 5 pp. 582-594.
- Shiah-Hou, S. R., & Cheng, C. W. (2012). Outside Director Experience, Compensation, and Performance. *Journal of Managerial Finance*, Vol. 38, Iss: 10 pp. 914-938
- Shin, R. S. H., & Chin, W. C. (2012). Outside Director Experience, Compensation, and Performance. *Journal of Managerial Finance*, Vol. 38, Iss: 10 pp. 914-938.
- Yermack, D. (1996). Higher Market Valuation of Companies with a Small Board Directors. *Journal of Financial Economics*, Vol. 40, pp. 185-221.
- Yue, F. W. (2008). The Discriminative of Ownership Structure on Stock Returns in Taiwan During Bear Market. *Journal of International Management Studies*, Vol. 3, No. 2.
- Yi, W., & Oliver, J. (2009). Board Composition and Firm Performance Variance: Australian Evidence. *Accounting Research Journal*. Vol. 22, Iss: 2, pp. 196-212.
- Zuaini Ishak, & Napier, C. (2006). Exploration of Minority Interests and Corporate Diversification in Malaysia. *Journal of Accounting and Finance*. Vol. 2, pp. 85-113.